Company: **Telenor ASA (EVENT)**

Conference Title: **Telenor Group Q4 Results**

Moderator:

Date: **Thursday, 2nd February 2017**

Marianne Moe: Good morning, everyone and welcome to the presentation of Telenor Group's results for the fourth quarter. My name is Marianne Moe. I'm head of Investor Relations, and I have the pleasure of guiding you through the programme here today.

We have a busy day ahead of us. First, the results presentations and then with the Capital Markets Day which will kick off in about one hour from now, and as a consequence, we will do the results presentation slightly different this time. Our Group CFO, Jorgen Rostrup, will give a brief presentation of the results. There will not be the usual Q&A session following the results presentation, but you will have plenty of opportunities to ask questions to the Group CO, the CFO and all the management during Capital Markets Day. Also, for media, there will not be the usual session straight after the results presentation, but there will be a separate media session in the first break of the Capital Markets Day.

So, then, without much further ado, I will yield the floor to Jorgen Rostrup to present the Fourth Quarter results.

Jorgen Rostrup: Thank you, Marianne. It's a great pleasure for me to be here today. It's my first quarter as Group CFO of Telenor, so I'm very pleased to be able to present the results for the fourth quarter 2016 and for the full year 2016, which basically shows that we continue to grow subscriber base and revenues, and delivering on an underlying healthy growth in EBITDA.

Revenue growth EBITDA margin and also the relationship between CAPEX and sales for the full year 2016 has been in line with our previous guiding. Free cash flow to equity ended at NOK 10 billion for the full year.

While the Q4 results reflect some of the usual fourth quarter seasonality and volatility, the underlying operational performance is fairly similar to the trends that we have seen in previous quarters in all key markets.

So, let me start by taking you through some operational development comments, and let's start with Scandinavia first. In Norway, while we have seen competition in both business and what we could call consumer low-end segments still continuing to be intense, we see good off-take and monetisation in the new mobile post-paid offerings that were launched mid 2016. By the end of 2016, 40%, 70,000 customers, more than 40% of our post-paid customer base has signed up of for the tariffs that include EU roaming.

With the new handset program, we continue to move sales towards what we would describe as more cost-efficient sales channels. The fibre rollout showed good traction with 13,000 households connected in the quarter and a solid 17% growth in high-speed broadband revenues, and while EBITDA was supported by a 5% reduction in operating expenses, CAPEX for the quarter was very high at the level of NOK 1.5 billion as a result of high activity both in 4G and fibre rollouts.

In Sweden, we see several of the same trends as in Norway. Mobile revenues reflect solid customer post-paid performance, largely offsetting the effects of lower roaming revenues that we have described earlier and price pressure in the business segment. The fibre rollout is starting to be visible and contributed to a slight increase in revenues in the fixed segments.

The SDU fibre rollout is on track with the first customers signing up in the quarter. And then, adjusting for a one-time effect related mainly to a decision by Swedish Tax Authorities regarding VAT treatment in 2013 and 2014, which is likely that we will appeal, mobile subscription and traffic revenues decreased by 1% while EBITDA in Sweden increased by 5%.

In Denmark, we added 44,000 new mobile subscribers, and we reported an EBITDA margin of 12% in a market that continues to be highly competitive.

In Central and Eastern Europe, both market environment and our performance this quarter is broadly in line with what we had seen in previous quarters. Our focus continues to be on the value customers and the migration of them from the prepaid segment and into the post-paid, supported by the continued expansion of our 4G networks, and we have seen independent speed tests showing that we have the fastest mobile network in both Hungary and Bulgaria.

Talking about Hungary, I am also pleased to see that OPEX reduction in the quarter resulted in a healthy 10% organic growth in EBITDA.

Emerging Asia operations were the main contributor to the Group's revenue growth also this quarter, as the last few quarters. In addition to double-digit revenue growth, the operations in Bangladesh, Pakistan and Myanmar all are reporting solid EBITDA margins this quarter.

We highlighted one quarter ago that data usage is increasing rapidly, both in Pakistan and in Bangladesh, and we believe that we are starting to see also healthy signs of data monetization, getting paid for this development. Attractive service offerings, good networks and also, of course, smartphones getting more and more affordable, are all drivers in this development. Our 3G network in Bangladesh has now more than 90% population coverage. If we stay in Bangladesh, we added 2.9 million customers in the quarter, and we added 1.2 million customers to the customer base in Pakistan.

In Myanmar, we continued the network expansion, bringing the total number of sites to more than 7,200 sites countrywide at the year end of 2016. In doing this, we are entering into some lower ARPU segments by nature, but still, we are able to see a 6% ARPU growth in the fourth quarter compared to the third quarter for Myanmar. The continued currency depreciation is still an issue in Myanmar, and it hits our OPEX and CAPEX numbers, obviously.

We are continuing to seek a good solution for Indian operation. While we are doing that, we are keeping a very tight OPEX and CAPEX control of the unit. We are very impressed by the effort taking place locally by the management, and in the fourth quarter, we had positive operating cash flow, that means EBITDA higher than CAPEX in the quarter in India.

Thailand and Malaysia, the last our four segments. We continue to see double-digit post-paid revenue growth, while prepaid revenue remains under pressure, as we had talked about previously. The solid post-paid performance is the result of the focused effort to take stronger value positions, bringing the customers from prepaid to post-paid, supported by attractive service offerings, strengthening both our physical but also our digital distribution systems, and a continuous improvement that we have had in our 4G networks. We are also taking some stronger action now on improving the prepaid performance in these markets. However, it is still too early to see the effects of this initiative.

The total revenue growth in Thailand was impacted by higher handset subsidies in the period for post-paid customers. We see a 3% decline in subscription and traffic revenue, and that is in line with previous quarters. We are, both for Thailand and Malaysia, growing EBITDA also this quarter. It is supported by lower regulatory costs in Thailand and improved margin on international traffic in Malaysia. 4G network expansion is going on at high speed in both Thailand and Malaysia. We added 2,700 new 4G sites in Thailand, improved coverage as well as network densification, which gives us some more flexibility when it comes to various spectrum scenarios going forward. We are reaching through our network in Malaysia now, 85% of the population, up from 78% only a quarter ago. So, for me, it is quite impressive to see what speed this is developing.

Then, some more focus on some financials. Revenue growth for the quarter – sorry, sorry, reported revenue, not revenue growth – reported revenue for the quarter was 33.1 billion, including negative currency effect of NOK 0.7 billion. So, on an organic basis, we had a revenue growth of 1% quarter-on-quarter. EBITDA was 10.8 billion, and EBITDA margin 33%, which is slightly higher than fourth quarter 2015.

Then, I mentioned earlier, the VAT issue in Sweden. This is impacting our revenue line negatively 200 million and OPEX line approximately 50 million. All in all, on EBITDA, 250 million. If you adjust for these effects, the growth on the organic EBITDA level for the Group in the quarter was 5%. We are gradually now firming up our efficiency agenda, and I think we can see some starting signals on these numbers supporting the development of the EBITDA 5% underlying growth. Also, lower handset sales contributed positively to EBITDA growth in the quarter.

I said that CAPEX in the quarter was high. It reflects high network investments in both mobile and fibre networks. The CAPEX to sales ratio for the Group was 21% in the quarter and 17% for the full year, according to our guidance throughout the year. The North Sea fibre to the home has a good growth opportunity in particular in Norway and Sweden, and we have therefore stepped up our fibre deployment, and you will see that continuing.

The fibre CAPEX this quarter in Norway and Sweden was 0.8 billion, which is 0.4 billion higher than the same quarter last year, and for the year 2016, it was NOK 2.5 billion. Mobile networks investments were focused on the 4G rollout in particular in Norway but also in several other markets. Network densification in Thailand and continued expansion in Myanmar.

From the consolidated income statement, we see that reported net income in the quarter is NOK 2.3 billion, implying an earnings per share of NOK 1.52 per share. For the full year 2016, reported net income for Telenor to its shareholders is NOK 2.8 billion, which gives an EPS of NOK 1.89.

And then we have several one-time effects impacting the reported net income in 2016, and I will take you through some of these on this slide. This is for the quarter. There is also one in the handout in the appendix for you on the full year, showing the full-year effects. I have already mentioned that EBITDA before the other items was impacted by a provision then of 251 million, mainly related to VAT treatment in Sweden, 203 of that on the revenue line and 48 million on the OPEX line.

Other items of negative 326 million include restructuring charges related to predominantly workforce reduction mainly in Norway and Sweden. Then we have scrapper – scrapping or losses on disposal of fixed assets of negative 479, all of these partly offset by gain of 458 related to the sale of a commercial building in downtown Oslo.

Then, as a result of lower expectations within the media advertising segment in the US, an impairment of NOK 1 billion has been recognized for Tapad, which is included in other units. And this is working the way that we are basing the valuation of Tapad on current revenue streams, and an important part of those revenue streams is the ad market, advertising market in the US. We have seen some softening there, and we have also revisit how steep and how high the growth going forward will be. We still think it is a good market to be in. More important is that the prime reason for us acquiring Tapad is the more advanced technologies that we want to use in our internal businesses in order to help us on a digitalization agenda of the company. That has not been a major element in the valuation, and we have not changed our view on the strategic value for Telenor in that acquisition. You will hear both Lars-Ake Norling and [inaudible] Sigve Brekke talk a little bit more about this in Capital Markets Day.

The impairment in India this quarter is in line with our current accounting treatment of CAPEX in this market and is the same effect that we have seen previously. Then there are elements on associated companies and financials that are related to the positive share price develop in the VimpelCom stock and the exchangeable bond with VimpelCom shares as the underlying security. These are the same type of effects that we discussed with you in the third quarter and is something that we will see quarter-on-quarter as long as we remain a holder of these shares.

Adjusting for these effects gives us a net income in the quarter of 2.7 billion and for the full year an adjusted net income for the group of NOK 14.3 billion, or an adjusted earnings per share of NOK 9.50[?].

If you take a look at the cash flow assessment, then we see that net cash inflow from operating activities this quarter is NOK 9.2 billion, and you can then start on the 10.5 billion in EBITDA and then adjust income taxes paid 1.5 billion and interest paid of 0.3 billion, and then you are approximately at the 9.2.

The net cash outflow from investing activities is 6.1 billion in the quarter and is driven primarily by CAPEX paid of 6.8, reflecting, as I said, the high network investment activity in the quarter. In addition to this, you will see we are having payouts of NOK 0.4 billion to non-controlling interests in our daughter companies and around 1.4 billion in supply chain financing and payments on license obligations. All in all, this gives free cash flow to equity holders of Telenor in the quarter of 1.5 billion and for the full year 2016 of NOK 10.3 billion.

When it then comes to the net debt development in the quarter, I will not spend much time on it now because we have touched on the key elements, but as you can see from the graph here on the left-hand side, the Group continues to be in a solid financial position. Net debt increased by 6.5 billion in the quarter, taking the net debt to EBITDA ratio slightly up a notch from 1.1 at the end of last quarter to 1.2 at the end of this quarter. It is still well below our defined ceiling of two times net interest-bearing debt to EBITDA. The main reason for this increase in debt in the quarter was payment of the second instalment of the two 2015[?] dividend to Telenor Shareholders of NOK 5 billion. The rest, I think, is self-explanatory, and I will leave that at this time.

When it comes to dividends, the Board of Directors proposed a total dividend of NOK 7.8 per share for 2016, to be presented through the Annual General Meeting in May. It clearly tells me, having witnessed the discussions in the Board of Directors, that there is a very firm commitment in the Board of maintaining a solid dividend policy, and that is, of course, also a key objective for the management of Telenor. This is a yield of approximately 6%, and it is year-over-year growth of 4%, confirming our ambition to deliver a continuous growth in dividend year-over-year. The plan is to pay it out in two instalments with NOK 4.3 paid out per share in May and the remaining NOK 3.5 paid out in November, should the Annual General Meeting in May approve this proposal.

Then, I touch on full year guidance. With a good top-line trend in our emerging Asia and also the fibre step-up in Norway and Sweden, we expect to see a 1% to 2% organic revenue growth in 2017. When it comes to the EBITDA margin, we expect to be around 36%, which indicates a slight improvement compared to this year – or last year, I should say. And then the CAPEX to sales[?] ratio, excluding spectrum licenses, is expected to be in the range of 15% to 16%, which is a notch down from the two last years and reflecting that we have been through a very significant investment period. We will get back to the 2017 outlook and or mid-term financial ambition in the Capital Markets later today.

To summarise a little bit, we believe we have put behind us a year where we have continued to grow revenues, deliver a record high EBITDA and a free cash flow to equity of 10.3 billion, and it's been, from an operational point of view, a strong year in all markets. Going forward, improved efficiency and strict prioritization of resources will be a key element. This is in order to support continued cash generation and value creation for the company going forward, and if you want to hear more about that, we hope you join us for Capital Markets Day. Thank you very much.

Marianne Moe: Thank you, Jorgen. And this concludes the presentation of the fourth quarter results here today. There will now be a 30-minute break before we continue with the Capital Markets Day. During the break, some light refreshments will be served upstairs in the cafe area, and for those who have signed up for the Capital Markets Day and haven't registered yet, please make sure to do so during the break. The presentation material should now be available both at the back of the auditorium at the registration desk and also at the website.

So, thank you all for attending this presentation. For those of you continuing here with the Capital Markets Day, see you soon. Thank you.